TRS MEMBERS' NEWSLETTER

VOLUME 1 NUMBER 1 SPRING\SUMMER 1998

WELCOME

By David L. Senn, Executive Director, TRS

Welcome to the first issue of the Montana Teachers' Retirement System Newsletter. In our first edition we have taken the opportunity to introduce the members of the Teachers' Retirement Board, discuss different types of retirement plans and estate planning and touch on pre-retirement planning as well. If you find this information informative and helpful, please let us know as it will help guide us as we produce future editions. Our current plans are to print the newsletter in the spring and fall of each year. If this proves to be a useful tool for informing our members about the Teachers' Retirement System, more frequent mailings may be justified.

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OUR BOARD MEMBERS

Rick Stuber, Chairman
Joe Cross
Virginia Egli
Jima Severson
Jim Turcotte
Vacancy (Representative of the Public)

Dr. Rick Stuber, Active Member of Teachers' Retirement Board - Currently Chairman of the Board

Dr. Stuber attended Eastern Montana College and the University of Montana, receiving his Masters Degree in 1978 and his Doctorate in 1983. Currently Dr. Stuber is the High School and Elementary School Superintendent in Culbertson. His term on the Teachers' Retirement Board expires July 1, 1998.

E. Joseph Cross, Active Member of Teachers' Retirement Board

Mr. Cross graduated with a Bachelor's Degree from Rocky Mountain College, a Master of Science Degree from Montana State University-Billings, and a Master of Science Degree in Administration from UCLA. Currently Mr. Cross is the Principal at Billings Senior High School. His term on the Teachers' Retirement Board expires July 1, 1999.

Virginia Egli, Retired Teacher Member of the Teachers' Retirement Board

Mrs. Egli received a Master of Education degree from the University of Montana and has completed graduate work in gifted and talented curriculum and also in Reading and Writing workshop method of instruction. Mrs. Egli taught in Glendive from 1973 until her retirement in 1994. She previously served as an active teacher on the Teachers' Retirement Board. Her term expires July 1, 2001.

Jima Severson, Active Classroom Teacher Member of the Teachers' Retirement Board

Ms. Severson received her Bachelor of Science degree from Northern Montana College. She currently teaches physical education, health, peer leadership, is a coach and chair of the physical education department in the Havre Public School System. Her term on the Teachers' Retirement Board expires July 1, 2001.

James Turcotte, Public Member of the Teachers' Retirement Board

Mr. Turcotte graduated from MSU Billings in 1968 with a BS degree in Accounting. Currently, Mr. Turcotte is a registered representative of the NASD Series 7,63 and 65 along with life and disability licenses. He is a Financial Consultant with Financial Network Investment Corporation (FNIC). His term on the Teachers' Retirement Board expires July 1, 2001.

One representative of the public position currently vacant (term will expire July 1, 2000)

TRS COMPLIES WITH IRS REGULATIONS

The TRS Board recently contracted with the law firm, Ice Miller Donadio & Ryan of Indianapolis, Indiana to confirm that TRS meets the regulatory requirements of the Internal Revenue Service. The Board did not believe there were any problems, but the IRS has started to look more closely at public retirement plans and the Board felt it was prudent to seek confirmation that we comply with the applicable regulations. The consultants have verified that the system's compliance status is excellent and only a few housekeeping amendments are necessary and a few potential member improvements may be possible..

One area of the IRS provisions that may create a problem is a provision that limits the amount that a member is permitted to contribute on termination pay. Section 415(c) of the code limits after-tax employee contributions to 25 percent of the member's income or $30,000, whichever is less. In a few instances, generally members with 30 or more years of service, this limitation could affect a member's monthly benefit.

The good news is that there are several ways to comply with the limitations. We will be working through our consultants to secure a favorable ruling from the IRS, that termination pay contributions comply with the provisions of Section 415(c).

We are optimistic that we will receive a favorable ruling from the IRS and that any statutory or administrative adjustments will be transparent to our members or will in fact result in an improvement in benefits.

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THE THIRD LEG OF THE STOOL: AN EDITORIAL

By Jerry Coffey

Their stories saddened me and I haven't stopped thinking about them since. The two retired employees approached me at our Benefits Fair in October to complain about the reduction in their retirement checks. One was a retired professor drawing a pension from TRS: the other a former classified employee in PERS. Both were receiving State retirement benefits of $500 to $700 a month and Social Security of about $800 a month. Each had a fully paid off home, but no other sources of income. Both had been long term employees of MSU and have now been retired for over a decade. With few prospects of increasing their incomes at this point, each faces a grim financial future. How can this happen? How can such dedicated employees who have spent their careers at the University end up in their retirement years so impoverished?

Their actual retirement amounts had not gone down, of course, but the cost of their medical insurance had increased. Remember that the State does not contribute anything to the retiree benefit program and all increased costs must be borne by the retired employees themselves. When the Choices program began in July, the rates for a Medicare-eligible single retiree went from $120 to $138 a month. A Medicare-eligible couple saw a $23 increase from $151 to $174 a month. Those retirees under 65 suffered even greater rate hikes: $187 to $220 for singles and $262 to $308 for couples. Since the medical insurance fee is deducted from their TRS or PERS benefit before being sent, each retired member of a State plan saw **a net reduction in their monthly retirement check**.

Medical insurance is not the only thing to increase. Property values and therefore taxes are inflating at high rates in most of Montana and especially in Bozeman and Missoula where so many of our retirees reside. The Consumer Price Index (CPI) seems to have settled into the 3-4 % range of late, but medical inflation is typically twice as high as the CPI and the utilization of the health care system increases with age. An employee who enters retirement with an adequate income soon finds their buying power diminishing year after year. Living in retirement for 20 years or more is not unusual these days. If a retiree has the good fortune (or perhaps misfortune) to live a long life, he or she may well end up in poverty at the end of their years.

Does Social Security or the State retirement plans provide any hedges against the ravages of inflation? The truth is not much. SS benefits have a Cost of Living Adjustment (COLA) linked to the CPI. Since SS benefits are designed to replace only 35% to 40% of income, these modest annual increases will never fully compensate for inflationary losses. There are few guaranteed increases in the State retirement plans. In the last Montana Legislature a number of bills were introduced to make one time adjustments in the various State plans or to establish Guaranteed Annual Benefits Adjustments or GABAs. A modest GABA of 1.5 % did pass for PERS and will begin in January 1998. A member must be retired for three years or more to qualify. The proposed GABA for TRS and the one time adjustments did not pass and prospects for future enhancements are probably not

great.

Last year the average TRS member retired at age 56 with 26 years of credited service and a monthly benefit of $922. For the PERS member the figures are even lower: age 60 with 18.5 years of credited service and a monthly benefit of $527. Don't forget that the monthly cost of the medical insurance must be deducted from these amounts. The average Social Security benefit last year nationwide was $745 for individuals and $1256 for couples. Social Security and the State retirement benefits may be enough to keep the wolves of hunger from your door, but if that is all you have, it is not likely that you will be going out to eat very often.

To place complete reliance for your financial security in retirement upon the good faith of the U.S. Congress and the generosity of the Montana State Legislature is, at best, a very risky strategy. Social Security and Montana retirement benefits were never designed to fully replace your income and neither provides very good protection against inflation. It is best to consider SS and PERS/TRS as two legs of your three-legged retirement stool. The third leg is up to you.

When you are young and early in your career, there never seems to be enough money to go around and retirement seems so far away. It is hard to consider deferring some of your compensation into a 457, 403b, or Roth IRA plan when shoes need to be bought, children need to be housed and fed, and bills need to be paid. Yet beginning a supplemental retirement fund early and contributing modestly but regularly could have more impact on your future financial security than anything else you might consider doing. Let's say you are 30 years old. If you took the $100 a month that you typically spend going out to eat and/or buying your lunch and invest that money in a retirement fund, your golden years would be secure. A $100 per month investment in a 403b plan starting at age 30 with a 10% average annual return would result in a $325,000 retirement fund at age 65. And since that $100 investment is going into a tax-deferred plan, your paycheck would be reduced by only $72 a month (assuming a 28% tax bracket).

The participation rate system-wide in our 457 Deferred Compensation Program and in our 403b Supplemental Annuity Programs is about 27% of eligible employees. Compared to comparable plans elsewhere this is quite good, but it is still not good enough. If you are one of the 73% of our employees who fail to participate, think about our two retirees trying to eke out an existence in Bozeman on approximately $1200 to $1500 a month. Think about what a supplemental retirement fund of $325,000 would mean to your own future. Think about the third leg of that stool.

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ESTATE PLANNING MISTAKES

One mistake many of us will make is giving too little thought to who will serve as the executor or personal representative of our estate when we are gone. We will pick our spouse, a friend, or a relative who will agree to do the job (for nothing you hope) and call our job done. Or maybe we will ask a lawyer we know of without questioning his estate settling qualifications. Consider these mistakes, for instance.

MISTAKES PEOPLE MAKE IN
CHOOSING AN EXECUTOR

❖ Choosing a contemporary. Who will outlive whom?
❖ Choosing a spouse or child as the only executor. Partners may add vital expertise.
❖ Not naming alternate executors if your first choice can't perform when needed.
❖ Choosing a lawyer who's not an expert in trusts and estates.
❖ Letting the lawyer who prepares your will name himself as executor.
❖ Failing to discuss fees if you've chosen a lawyer as your executor.
❖ Choosing anyone who'll do the job for nothing. Heirs often pay dearly for amateur errors.

But really, do **YOU** know what an executor does? Just a few of an executor's duties below might make us think twice about the skills our heirs and estate deserve. An executor must:
❖ Select an attorney to handle probate of the will.
❖ Close up the house or apartment.
❖ Go through safe-deposit boxes.
❖ Locate and account for all the deceased's assets.
❖ Locate personal effects which have been specifically bequeathed.
❖ Arbitrate disputes among heirs and potential heirs.
❖ Convert major assets into cash.
❖ Resolve finances; review debt claims for validity.
❖ Pay off the estate's debts.
❖ Make decisions that affect taxes.
❖ Prepare and file tax returns for the deceased's estate.
An executor is a busy occupation for as long as it lasts.

SO HOW DO YOU
CHOOSE AN EXECUTOR?

A good executor needn't be an attorney or a bank or even a CPA, although these may give the cleanest results. Experience counts. Nevertheless, he or she *should be capable of the duties you've just read about,* have a sense of organization, and possess the temperament for sensitive or confrontational situation. And when it comes to family differences, the esteem and authority your executor is accorded by your heirs will be a priceless plus.

KEEPING UP AND UP-TO-DATE

❖ Follow up with your proposed executor every so often to make sure he or she is still willing and able.

❖ Knowing the challenges of the task, keep your eye open for capable alternates or assistants you can approach

❖ If you find a superior and willing individual, or decide on a bank, it's easy at a convenient time to say, "I have some refreshing news for you. I've decided to simplify the future-*and your life*-by naming _____ as my estate's executor so you won't have to do it." Unless he or she received your promise of an attractive executor's fee, chances are the person will feel relief at your announcement.

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INTERIM LEGISLATIVE COMMITTEE LOOKS AT PERS

House Bill 90 from the last session requires the Committee on Public Employee Retirement Systems to look into ways to change or replace the current PERS. HB 90 only deals with the PERS, and the committee will not be considering changes for other retirement plans. The committee is looking at options that include both defined benefit and defined contribution features. The committee's reports are available on the Internet at www.mt.gov/leg/branch/pers_main.htm.

The following information is provided to help identify the definition, advantages, disadvantages, and types of defined benefit and defined contribution retirement plans.

DEFINED BENEFIT

DEFINITION

❖ Benefit is determined by a formula
❖ In-service withdrawals not permitted
❖ Lump sum distribution
❖ Form qualified plan can normally be rolled over to an IRA or another plan

ADVANTAGES

❖ Investment risk is shared by the employers
❖ Benefits are more predictable
❖ Benefit provided is based on pre-retirement final average salary
❖ Provides more income for career employees---rewards longer service
❖ Generally offers inflation protection during retirement through COLAs
❖ Member cannot outlive benefits
❖ Provides early retirement benefit opportunities
❖ May recognize outside, non-covered service credit (e.g. military)
❖ Can provide survivor and other supplementary benefits
❖ Provides disability protection during career

DISADVANTAGES

❖ Limited portability of benefits
❖ Provides less income for non-career employees
❖ Generally no withdrawals prior to termination

TRS DEFINED BENEFIT PLAN

❖ Average final pay---average final salary (highest consecutive 3 years pay) times years of service times 1.6667%

DEFINED CONTRIBUTION

DEFINITION

❖ Benefit equal participants' account balance
❖ Account balance equals contributions adjusted by investment results
❖ Employees may or may not be required to contribute

ADVANTAGES

❖ Funds are generally more portable
❖ Simplicity in plan--value is easily determined
❖ More employee control
❖ Provides for capital accumulation
❖ Provides more income for non-career employees
❖ Opportunity for higher benefits If investment performance is superior

DISADVANTAGES

❖ Employee assumes all risk - poor investment performance may result in inadequate benefits
❖ Many participants lack investment expertise necessary to provide for adequate retirement income
❖ Portability may contribute to use of funds for purposes other than retirement
❖ Benefits not related to pre-retirement pay (e.g. comparable standard of living)
❖ Loss of financial security that accompanies lifetime monthly retirement income
❖ More difficult to retire early--risk of depletion of funds during retirement
❖ Outside, non-covered service credit not easily recognized (e.g. military)
❖ Lack of inflation protection

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P O BOX 200139
HELENA MT 59620-0139
(406)444-3134

Should any information in this newsletter raise any questions of interpretation of the law, the official wording of the laws of Montana will govern.

Upon request, this newsletter can be made available in alternative formats.